H-3103-1 - FEES, RENTALS, AND ROYALTY

Reference List of Decisions Addressing Oil and Gas Lease Rentals

Solicitor's Opinion M-36592, (January 21, 1960)

This opinion concerned the segregation of leases resulting from partial commitments of an oil and gas lease to an approved unit and the Mineral Leasing Act containing no authority for the Department to segregate a unitized lease into separate leases upon partial elimination from a unit plan by reason of contraction of the unit area.

Department of the Interior Decision A-28895, (June 4, 1962)

In the case C. W. Trainer, the automatic termination provision in section 31 of the Mineral Leasing Act, as amended, does not apply to a situation where, due to other contingencies, additional rent may become due on a date other than the anniversary date of a lease.

Solicitor's Opinion M-36629, (June 25, 1962)

A unitized lease shall not be subject to automatic termination under Section 31 of the Mineral Leasing Act if there is a producing or producible well anywhere on the unit.

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Department of the Interior Decision A-29849, (June 3, 1964)

An oil and gas lease on land within the known geologic structure of a producing gas field which attains a minimum royalty status because of inclusion in the participating area of a producing gas unit but on which there is no producing or producible well and which is subsequently extended as a consequence of the termination of the unit reverts to a rental status and is subject to the automatic termination provision of the act of July 29, 1954.

Decision of Chief, Office of Hearings and Appeals, Bureau of Land Management, (March 29, 1968)

In the case of W. C. McBride, it was noted that only part of the land covered by the lease in question was unitized, and further, that only specific formations in and under part of the leased lands were unitized. BLM held that two leases were segregated, one from the other, by this unitization. One lease covered only those formations under the land unitized, and the other lease covered only those lands not unitized and those formations under the unit which were not unitized.

Department of the Interior Decision A-30897, (April 2, 1968)

In the case of T. Jack Foster, part of the lands covered by a noncompetitive lease were committed to a unit plan. Of those lands not unitized, part were later determined to be within the limits of a KGS of a producing oil and gas field. Of those lands within the unit, part were included within a participating area and part were not. Later those lands within the unit, but not participating in the production of oil and gas, were excluded from the unit. The Department held that the rate of rental for each acreage was as follows:

a. Acreage without the unit, prior to the determination that part of the same was within the limits of a KGS of a producing oil and gas field, 25 cents per acre per year (non-KGS rate).

b. Acreage without the unit subsequent to the determination that part of the same was within the limits of a KGS of a producing oil and gas field, $1 per acre per year (KGS rate).

c. Acreage within the unit and participating in the production, minimum royalty in lieu of rentals.

d. Acreage within the unit but not participating in the production, 50 cents per acre per year. This acreage was charged rental on the basis of a noncompetitive lease without the limits of a KGS of a producing oil and gas field, but extended beyond its primary term. In the past, the rate of rental increased from 25 cents to 50 cents upon such an extension.

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Solicitor's Opinion M-36776, (May 7, 1969)

Whether a partial unitization of less than all formations within the boundaries of a Federal oil and gas lease affects a horizontal segregation, in whole or in part (i.e., as to a particular tract therein), of the patent (sic) lease into two leases, one of which embraces only the unitized formations depends upon (1) the intent of the parties to a unit agreement, (2) the facts and circumstances of the unitization, and (3) the understanding of the Secretary, or his delegate, when approving the agreement as to the reasons for and the goals to be attained pursuant to such unitization.

Standard Oil Company of California vs. Rogers C. B. Morton, et al., (450 F. 2d 493 (9th Cir. 1971))

The court ruled that rental on leases partially eliminated from a unit area remain at the rate specified for nonparticipating unitized acreage and not the rental rate for lands within a KGS. However, had the entire lease been contracted out of the unit, the rental rate for land within a KGS would apply since a portion of the lease was within the boundary of such a structure.

Husky Oil Company of Delaware, Depco, Inc., 5 IBLA 7 (February 18, 1972)

Where a producing lease oil and gas lease is partially committed to a unit agreement and the segregated uncommitted lands do not contain a well capable of producing oil or gas in paying quantities, the segregated lease is subject to payment of annual rental on or before the anniversary date of the lease. Where the lessee is not informed of approval of the unit agreement and segregation of the uncommitted lands into a new lease effective April 1, 1970, and he did not received notice until some five weeks thereafter of such actions and subsequent to anniversary date of the lease, May 1, 1970, the segregated lease is not automatically terminated under 30 U.S.C. 188 (1970) for failure to pay the annual rental on or before the anniversary date of the lease. Congress intended that the automatic termination provision of 30 U.S.C. 188 (1970) apply to the regular, annual rental payment, the necessity for which a lessee had continuous notice and that provision was not intended to apply to a case where a lessee had no way of knowing that the obligation had accrued.

Buttes Gas & Oil Company, 13 IBLA 125 (September 25, 1973)

Where an oil and gas lease has been segregated horizontally, the holder of each resulting lease is liable for payment of rental and royalty based on the entire area included in the segregated lease, notwithstanding this may result in multiple payment of rental or royalty for the same land.

Duncan Miller, 17 IBLA 128 (September 12, 1974)

Rental for Future and Fractional Interest Leases. Where the United States owns 100 percent of the gas and 50 percent of the oil in a tract of acquired land, rental for an oil and gas lease on such land will be based on the larger fractional interest owned by the United States, and not on an average of the separate fractional interests.

Odessa Natural Corp., 30 IBLA 28 (April 11, 1977)

When an oil and gas lease is in royalty status and acreage containing the well is segregated into a new lease by approval of an assignment, the nonproductive lease does not terminate for failure to pay rental timely if the Bureau of Land Management does not inform the lessee of the segregation until after the anniversary date of the lease.

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Shell Oil Co., 30 IBLA 290 (June 1, 1977)

The lessee of an oil and gas lease, issued after Sept. 2, 1960, which has reached the end of its primary term, must submit the rental for the first year of an anticipated extended term under 30 U.S.C. 226(e) (1970) on or before the regular anniversary date of the lease. Failure to submit the rental timely will result in the automatic termination of the lease by operation of law under 30 U.S.C. 188(b) (1970). Unless the lessee can show that he is entitled to reinstatement of this lease under 30 U.S.C. 188(c) (1970), the lease must be deemed to have terminated at the end of its stated term.

American Resources Management Corp., 36 IBLA 157 (July 31, 1978)

The automatic termination provision in Sec. 31 of the Mineral Leasing Act, as amended, does not apply to a situation where, due to other contingencies, additional rental may become due on a date other than the anniversary date of a lease.

Funk Exploration, 73 IBLA 111 (May 23, 1983)

Where a lessee represents to BLM that 40 acres of a 48.98 acre lease has been committed to a producing unit and inquires about the rental amount next due, BLM's answer that rental need be paid only on the 8.98 acres outside the unit is correct. But if, in fact, the other 40 acres has not been committed to such a unit on the anniversary date of the lease, the payment of only the fractional rental will result in the automatic termination of the lease.

Walter S. Fees, Jr., 110 IBLA 377 (September 19, 1989)

The automatic termination provisions of 30 U.S.C. 188 (1982), do not apply to an oil and gas lease which has been committed to a unit, where there is production from a unit well anywhere in the unit.

Andrew HeLal, 122 IBLA 325 (March 11, 1992)

Under Sec. 31(b) of the MLA, as amended, oil and gas leases are subject to automatic termination by operation of law for failure to pay the annual rental in advance by the lease anniversary date. 30 U.S.C. 188(b) (1988). The automatic termination provision does not apply to rental charges becoming due at a time other than the anniversary date due to the termination of a suspension of the lease.